

**November 24, 2009**

**To - Members of City Council**

**and**

**The Citizens of Harrisburg**

**I hereby transmit the proposed City Budget for calendar Fiscal Year 2010.**

**There is no tax increase.**

**This budget reflects the ten additional police officers being hired in the month of December, who begin their police academy training in early January. This will bring to at least 34 the number of officers hired in 2008 and 2009. The City's success in securing grant monies has covered much of these costs. With the very recent graduation of the most recently hired eleven police officers, we are now establishing permanent Walking Patrol Districts. The Police Bureau has always had some extent of walking patrols but not on a continuous basis. As additional officers come into the field next year, the number of Walking Districts can be increased, too.**

**The preparation of this budget and, indeed, the operation and adjustment of the present year budget have been done in the midst of the worst economic recession to affect the Nation since the 1930's. The effects of this national economic circumstance are now being felt in Harrisburg and it is clear these effects will continue to be visited upon the City during at least the coming fiscal year and probably into 2011.**

## **2010 Budget Transmittal to City Council**

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**Given the diverse operations of city government, the annual budget preparation process is a tedious one. We are affected by an extraordinary array of constantly changing dynamics, most of them involving external matters over which a local government has little or no control.**

**For purposes of illustration, I shall cite some examples:**

- The final State Budget, adopted 101 days after deadline, cut the City's fire protection appropriation by \$253,000, which represents an immediate loss of this sum in this year;**
- Almost exclusively related to current economic pressures, the collection rate on utilities has dropped, reducing these revenues which not only affect the individual utility funds but also, by extension, the General Fund;**
- With the expiration of the ten-year rate caps imposed on electrical energy companies in Pennsylvania on January 1, 2010, the costs for this energy immediately rise thereafter; the higher rates with PPL Electric Utilities, which vary according to the specific tariffs applicable to different City facilities and functions, has been successfully mitigated to some extent; we have just completed a successful negotiation for electrical energy supply at a rate 17.3% less than what we would otherwise be paying PPL; still, we shall be annually paying \$320,036 more for electricity than we have in each of the past ten years;**
- The City, after a request-for-proposal process publicly conducted, has chosen an energy consultant to do a top-to-bottom review of existing City facilities; preliminary indications are that substantial energy conservation measures can sharply reduce energy use and thus produce savings; the initial report on this is due in January and we will then have a clearer picture of both the savings and the costs for conservation work and the timeline in which all this can occur; since these costs and savings are not yet known, they are not incorporated into the budget draft;**
- Certain tax revenues have declined, notably with transfer taxes on real estate transactions---a clear reflection of the slowed real estate market in this period of recession;**

- **The costs for city employee health, dental and prescription benefits actually drop for the Year 2010, by \$392,214 below the budgeted 2009 level;**
- **There are some personnel cost savings projected as a result of so many veteran City staff departing City service;**
- **As a result of the Nitrogen Removal Project initiated by Pennsylvania and contiguous states, to restore the waters of the Chesapeake Bay, the Harrisburg Advanced Wastewater Treatment Plant is required to meet expensive new mandates related to its operations; the initial first cost of this is reflected in the 2010 Budget by the new annual expense of \$103,125 to purchase nutrient credits;**
- **The Budget includes the hiring of at least two additional firefighters;**
- **The City, even through competitive public bidding, has experienced a \$95,000 increase in the costs of chemicals for the water utility operations;**
- **Starting in the second half of 2009 and continuing into 2010, we have \$440,000 less cost associated with lubricants, gasoline and diesel fuel for vehicles as a result of securing more energy-efficient vehicles and due to somewhat lower market costs for oil and fuel, which the City purchases on a bulk bid basis to achieve best pricing;**
- **For 2010, there are no management employee raises included in the budget, making this the third year out of five years that this has occurred; the raises for non-managerial staff are those already required by the three collective bargaining agreements currently in place;**
- **U.S. Postal System postage rates increased in mid-2009 and carry into 2010, of course, reflecting a higher cost to the City for required mailings of such items as the monthly utility billings;**
- **Through a competitive proposal process, the City has achieved a premium reduction over 2009 costs for its stop loss insurance coverage;**
- **Managerial and administrative costs have been cut in many areas and some of this has been accomplished by restructuring the city governmental**

organization; earlier this year, the three divisions of the Bureau of Operations and Revenue were rolled into a single unit and the Bureau of Building Maintenance, always a component of the Department of Public Works, was incorporated into the Bureau of Operations and Revenue, too; Building Maintenance personnel operate only in the City Government Center and McCormick Public Services Center and it makes sense to have them as a part of the bureau in the Department of Administration that handles operations; the savings here include having only one bureau director, instead of two; further, the Office of The City Engineer is now incorporated into the Department of Public Works, instead of being a separate entity unto itself; the Engineering Office's work more relates to items related to public works than any other department; the same is true for the Mayor's Office of Economic Development and Special Projects, now being incorporated into the Department of Community and Economic Development as a bureau; there are administrative and other savings by these realignments;

These listed items are but a glimpse of the many changing conditions that must be considered in crafting an annual budget plan.

For 2010, however, there is a further major inclusion that makes all others pale in comparison. It is the matter of the Resource Recovery Facility (RRF) debt---commonly but inaccurately called the Incinerator debt (inaccurate because the facility does far more than the mass burning of municipal solid waste.)

Much has been said on this subject. A brief retrospective may help.

The Resource Recovery Facility was built in the late 1960's. At the time, it was considered state-of-the-art and intended to provide the City and region with a long-term disposal solution for municipal solid waste and certain types of other permitted wastes.

By the early 1980's, the Facility was operated only at 25% of capacity due to poor maintenance and other issues. The new Administration secured the services of a top professional in the industry, then working for the City of Chicago, who came to Harrisburg and guided the staff and new managers into putting the facility into proper operation.

For years thereafter, the Facility, for the most part, functioned reasonably well. There were years it made a profit, which accrued to the benefit of the General Fund.

**In the early 1990's, state law was adopted that mandated every county develop a solid waste management plan. At that time and for the preceding years, the Harrisburg RRF was disposing of most of the waste from Dauphin County and the area.**

**The ultimate Dauphin County Plan completely excluded the Harrisburg RRF from receiving any waste, other than the City's waste. Cumberland County took similar action in their county plan.**

**Thus, almost overnight, most of the waste-burning business of the plant was taken away. The exclusion of the Harrisburg RRF was viewed by the City as extraordinarily arbitrary and unacceptable. The City filed legal action. Over the ensuing years, after a protracted litigation process, the City eventually prevailed and the Harrisburg RRF was allowed into the county plans as an approved disposal site.**

**By then, though, the extreme fiscal damage had been done. The Plant, due to the loss of so much local business, was forced into a deficit operating mode and was a drain on the City's General Fund.**

**Meanwhile, the U.S. Congress adopted new provisions for the Federal Clean Air Act, the effect of which was to mandate that facilities, including the Harrisburg RRF, must undergo a major and expensive retrofit. As a practical matter, many of the original plant components had reached their maximum useful life, so other retrofitting would have soon been necessary, as well.**

**A competitive process for seeking proposals was conducted. The firm known as Barlow and Associates of Colorado made the lowest cost proposal, utilizing patented new technology already in use at other sites.**

**For more than a year, the Barlow proposal was extensively reviewed. The independent engineering firm serving the City reviewed it. City Council hired its own engineering firm to do the same. So did the Dauphin County Commissioners.**

**In all these separate, independent reviews of the Barlow plan, not one review raised the question that the Barlow Project budget was seriously under-estimated. It was only well into the project's actual implementation that this circumstance evolved.**

**I think it fair to say that none of us---not City Council, not the County Commissioners and certainly not this office---would have approved the Barlow Project if we knew then what we know today.**

**This, of course, does not mitigate where we find ourselves in terms of the facility debt for a plant that does not currently produce sufficient cash flow to pay the debt and which revenues essentially only cover plant operating costs.**

**During 2009, the City has made major payments on the year's RRF debt costs. In other instances, the Debt Service Reserve Funds were drawn upon. To a limited degree, the County was called upon to make some payments, since they are a secondary guarantor behind the City for some of the facility debt.**

**For 2010, the City is now mandated to include replenishment of the drawn upon Debt Service Reserve Funds in the annual budget and further required to list the other facility debt expected to require a City payment. This includes the 2007 Working Capital Fund, the entirety of which is due for pay-off in 2010.**

**All these numbers are represented in the Debt Service Fund component of the 2010 Proposed Budget.**

**Clearly, it is necessary to aggressively undertake a variety of action steps. No single step will, alone, address the issue but, in combination, the overwhelming majority of the RRF debt issue can be addressed.**

**There has been discussion that seeking Act 47 Designation for Harrisburg is the solution. This suggests that the state government would enter the picture and pay for most or all of the debt. The State will not take responsibility for this debt.**

**Another suggestion has been to seek bankruptcy protection. A U.S. Bankruptcy Court has a degree of latitude in being able to order some or all of the action steps being outlined in this budget transmittal and they can further additionally order a City tax increase which this budget does not propose and which can be avoided if proper and timely actions are successfully taken.**

**Moreover, if Dauphin County would further pursue reimbursement of what they have already expended on covering a small portion of 2009 debt payments, the County Court, if favorably considering a County petition in this matter, is essentially limited to ordering a tax increase which, as stated, is not a preferred option for Harrisburg.**

**Instead, we and associated entities must act. It could be said that these actions steps could already have been taken and this would be true. At this point, however, we do not think it useful to revisit this point. We cannot go back in time but it must also be clearly**

**understood that if the City and the associated entities do not act, in the future, others will and will do so without consideration of City concerns.**

**Addressing Resource Recovery Facility debt requires that:**

**(1) Most of the Harrisburg Parking Authority assets be long-term leased; after a competitive request-for-proposal process, the highest proposer, whose offer was well in excess of any others, put forth a \$215 million offer; that offer remains essentially available still; the funds, after paying closing costs, would be used first to retire all Parking Authority debt, as this would be mandatory since the collateral assets and their cash flows would no longer be pledged to the Authority bond payments; this would represent a cost of \$100 million, depending upon market conditions, and could be a bit more or less; the remaining funds would go entirely toward RRF debt.**

**This offer included that no Parking Authority employee would lose his or her job, that every employee would be receiving a compensation increase, that additional hirings would likely occur over the next two years, and that the City would continue to receive all parking tax revenues to the General Fund, along with other revenues attendant to the parking assets being managed by a for-profit entity.**

**This long-term lease also means that any and all maintenance, repair and replacement costs, including the costs of eventually replacing older parking garages in the future, would shift to the parking operator and would not involve new Parking Authority debt in the future which, incidentally, is City guaranteed debt.**

**The benefits from this are several---\$100 million in Parking Authority debt already guaranteed by the City would be eliminated, over \$100 million in RRF debt would be wiped out, jobs would be preserved, and some City revenue streams would remain intact for the City's General Fund.**

**A short-term action that is available would be to sell the City-owned land, on which three Parking Authority garages are built, to the Parking Authority. This would raise \$10 to \$12 million. While this would give some more immediate cash for use with 2010 RRF debt, the fact remains this would be a case of having the Parking Authority issue new debt to be retired as and when a long-term lease of the Parking Authority assets would go into effect.**

**(2) That the Resource Recovery Facility be transferred to private ownership through a lease-to-purchase agreement; presently, since the Facility is under-performing, the market**

value of the Facility would be at one amount; enhancing facility revenues and performance, however, would increase its long-term value and, hence the market value;

**These enhancements would include, at a minimum:**

- (a) Re-establishment of steam sales to the Downtown District heating and cooling system, which would also involve restoring the existing underground transmission line between the two facilities or placing an above-ground transmission line that is easier to access for maintenance purposes;**
- (b) Increase revenue from the sale of facility electrical energy that is co-generated by steam being fed through the turbine-generator of the co-generation component of the Plant; with electrical energy rate caps going away starting January 1, 2010, energy can be brokered at varying rates; it is preferred that most of the facility energy be long-term committed with set rates, to provide cash flow certainty, and a minimal amount of energy available for market sales when price fluctuations go upward to maximize revenue opportunities;**
- (c) Aggressive marketing to increase the waste stream being process at the Facility;**
- (d) Better enforcement of the County Solid Waste Management ordinance that requires all municipal solid waste generated in Dauphin County go to the Facility (we know that some does not);**
- (e) Marketing of the aggregate materials (ash) that are an end-of-processing product for use in various construction materials, such as highway barriers, which reduces the ash piles now at the Plant, reduces future costs of disposing of ash to off-site locations, and would produce some new revenue;**
- (f) Undertake additional alternative energy generating components at the Facility and on its contiguous land areas, including wind energy, and undertake comprehensive market research to develop additional waste disposal processing components to take on “niche” waste items, for which long-term disposal needs exist and which cannot be incinerated in the main Facility’s three furnaces; the engagement of energy and waste consultants can accelerate the identification, costing and undertaking of these two initiatives;**



**The preferred lease-to-purchase agreement would be, for example, for an initial lease period of five years, during which time the facility enhancement would be emplaced; the agreement, which would set forth a minimum end-of-lease purchase price, should include escalator clauses so that with facility enhancements, the purchase price increases to reflect long-term enhanced revenues. All proceeds from the lease period and ultimate sale would go toward RRF debt.**

- (3) Sell or long-term lease other City assets, notably City Island and the Broad Street Market; all proceeds would go toward RRF debt;**
- (4) Restructure existing water and sewer bonds of the Harrisburg Authority; while this seemingly is unrelated to the RRF debt issue, a restructuring, especially at today's lower market interest rates, increases the available water and sewer funds' cash that is transferable to the City for reuse toward RRF debt;**
- (5) Establishment of new fees and update longstanding existing lower fees on a department by department basis throughout City government, the effect of which is to raise added City revenue that is then available for General Fund purposes, including the RRF debt;**
- (6) Refinance the 2007 Working Capital Bond of The Harrisburg Authority, all of which is due and payable during 2010; a refinancing reduces this obligation to a much lower annual amortization payment; this is, however, a short-term action; the preferred course would be to retire this bond entirely, when due in 2010, by taking steps listed in this transmittal;**
- (7) With the aggressive and timely undertaking of these action steps, it is believed that the County would revisit the question of whether the County trash disposal rate should be increased; the County has been unwilling to take such an action without a comprehensive plan being pursued to address the overall RRF debt issue; such a rate increase, incidentally, would be an enhancement to the Facility's long-term cash flow projections and would result in a higher facility purchase price under the escalator clauses of the lease-to-purchase agreement.**

**These and other, smaller steps will go a long way toward resolving this matter.**

**The City and its associated entities must move forward with action steps. While some of these steps may be matters of dissention, the obligation becomes to identify alternatives to these steps that would achieve the same long-term resolution of RRF debt. All additional feasible options should be considered, if any are offered.**

**In other budget-related information, I should note that the Neighborhood Nuisance Abatement Unit, formed at the start of 2009 and which has been effective since, is continued in the 2010 Budget.**

**We should note that we have retained in this budget Harrisburg's pioneering two-tiered tax rate system through which the tax rate on buildings is only one-sixth the tax rate on land. This is a key economic development policy.**

**It serves to induce the highest and best use of land and rewards investment in doing so. It serves to produce a tax savings for the overwhelming majority of property owners over the single tax rate system that is in use throughout nearly all of Pennsylvania and the Nation. It also serves to discourage real estate speculation that allows land to sit abandoned and unused.**

**Further, as we have done in the past two years, we shall rebate to all eligible senior citizens the difference between their 2010 real estate taxes and the taxes they paid in 2006.**

**It is also noteworthy that, during this year, the City of Harrisburg again received, for the 21<sup>st</sup> consecutive year, the Certificate for Achievement for Excellence in Financial Reporting. It is the highest award in the Nation for financial reporting and accounting.**

**For the 18<sup>th</sup> consecutive year, the City has also received the Distinguished Budget Presentation Award, the highest award in the United States for budgeting.**

**In these years, these were the first times Harrisburg received such recognition. In Pennsylvania, there are 2,566 municipalities. Only four of them have received these top two awards in the last annual round.**

**The Harrisburg Police Bureau has retained its status of national law enforcement accreditation. This is the highest recognition in the country for meeting high law**

**enforcement standards related to operations and training. Of over 21,000 police agencies in the Nation, less than 600 have attained and retained national accreditation.**

**For the 22<sup>nd</sup> consecutive year, the City received the Tree City USA Award for its conservation and environmental programs.**

**We can report that Harrisburg has maintained its certification under the National Flood Insurance Program. As a direct result of the upgrades in our emergency management and floodplain land use programs, the City has been upgraded four times to what is the highest rating for any municipality in Pennsylvania. The result is not only better protection for lives and property but also that city property owners and residents are entitled to a 20% reduction in the base premium costs for flood insurance when compared to rates outside the City.**

**Finally, amidst all the challenges and issues we face, we ought to reflect on how far Harrisburg has come, from when it was listed the second most distressed city in America.**

**In present time, we have extensive residential development through both new construction and the rehabilitation of older structures. It is happening citywide, from Uptown to Allison Hill, and dozens of other sites. City housing work has affected over 6,000 residential units to date.**

**The Northern Gateway Project is nearing its construction start and, with it, the further evolution of the Sixth and Seventh Street Corridors.**

**The Southern Gateway Project continues its detailed planning process, involving the area of the city between Chestnut and Paxton Streets.**

**The new Midtown Center of Harrisburg Area Community College is in full operation. Across the street, on two corners, the Campus Square Project, involving 75,000 square feet of space, is nearly done, with work on the other corner already completed.**

**A new hotel has opened on Wildwood Drive. An existing hotel completed major upgrades this year.**

**Arguably, the most exciting part of Harrisburg's economic development is the City's evolution as a center for education, a circumstance never before experienced since our founding as a borough in 1791.**

**As a matter of economic strategy, planning and action, our policies and efforts have very intentionally been to create a synergism and inter-connection between local education, higher education, workforce development and economic development.**

**The results thus far are measurable. The new Harrisburg University of Science and Technology is in its fourth year of operation and growing. Its new 16-story Academic Center and Fourth and Market Streets is completed and fully functioning.**

**The affiliated Science and Technology High School, a part of the Harrisburg School District and with a mirror curriculum to the University's, is now in its seventh year.**

**Harrisburg University is the first comprehensive university to be chartered in Pennsylvania in over 100 years. With its focus on the STEM skills of Science, Technology, Engineering and Math, its mission is to prepare the innovators and the workforce for the businesses and high-skill jobs that are fueling the 21<sup>st</sup> Century economy.**

**With Harrisburg's initiatives related to education, already can be seen the arrival of research, service and other employers. A technology corridor has emerged in the City.**

**In related endeavors and in addition to HACC's new Midtown Center, Messiah College has built and opened its new Harrisburg Institute. With the Dixon University Center, where major renovations and upgrades were dedicated last year, and with Temple University and Penn State University classes and programs in the City, there is now a critical mass of higher educational opportunity and offerings here to foster and support a new level of job creation, skills training and further economic development.**

**Fundamental to this array of progress has been the ability of city government to plan, develop, foster, spawn and stimulate these advancements. Most of it would not have happened in a vacuum for, as George Will accurately wrote, "the inevitability of progress is a myth"---a fact especially true for American cities.**

**Despite our challenges, these remain exciting times for Harrisburg. With vision, ardor, and unconditional commitment, we embrace the high ideals of public service. We embrace high purpose and noble goals in the abiding belief that for this City and for our Nation, our best days are still ahead.**

**This 2010 Budget is submitted in that spirit.**

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**Mayor Stephen R. Reed**